

SOUTHERN IOWA MENTAL HEALTH CENTER
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS

SCHEDULE OF FINDINGS

JUNE 30, 2007

SOUTHERN IOWA MENTAL HEALTH CENTER

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SOUTHERN IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS
JUNE 30, 2007

<u>Name</u>	<u>Title</u>
Kathy Hasley	President
Jackie Greenfield	Vice President
Sarah Wenke	Secretary/Treasurer
Tim Hotek	Board Member
Nancy Emanuel	Board Member
LuEtta White	Board Member
Marvin Knoot	Board Member
Heidi Baker	Board Member
Dale Taylor	Board Member
Steve Siegel	Board Member
Bob Thomas	Board Member
Hugo Cividanes	Board Member
Donna Crookham	Executive Director

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southern Iowa Mental Health Center
Ottumwa, Iowa

We have audited the accompanying statement of financial position of Southern Iowa Mental Health Center (a non-profit organization), Ottumwa, Iowa, as of June 30, 2007 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Iowa Mental Health Center, as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2007 on our consideration of Southern Iowa Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
October 12, 2007

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2007

ASSETS

Cash and cash equivalents	\$ 189,134
Investments	51,279
Receivables:	
Accounts receivable; patient services, less allowance for doubtful accounts \$20,432	47,674
Accrued interest	1,069
Unconditional promises to give:	
United Way Services funding	21,895
Prepaid expenses	8,179
Furniture, fixtures and equipment	191,591
Less accumulated depreciation	<u>(161,599)</u>
 TOTAL ASSETS	 \$ <u>349,222</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 11,862
Accrued liabilities:	
Payroll	17,991
Payroll taxes	745
Vacation	15,715
Capital lease obligation	<u>10,714</u>
Total liabilities	<u>57,027</u>
 Net assets:	
Unrestricted net assets	270,300
Temporarily restricted net assets	<u>21,895</u>
Total net assets	<u>292,195</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>349,222</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES

YEAR END JUNE 30, 2007

	<u>Unrestricted</u>	<u>Temporality Restricted</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUES:</u>			
Public support:			
County funds	\$ 385,845	\$ -	\$ 385,845
Federal funds and grants	54,395	-	54,395
United Way grant	-	43,072	43,072
Total public support	<u>440,240</u>	<u>43,072</u>	<u>483,312</u>
Revenues:			
Private fees, title XIX and other	409,237	-	409,237
Promise Center	50,414	-	50,414
Interest	5,073	-	5,073
Miscellaneous	8,819	-	8,819
Total revenues	<u>473,543</u>	<u>-</u>	<u>473,543</u>
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>21,177</u>	<u>(21,177)</u>	<u>-</u>
 TOTAL PUBLIC SUPPORT AND REVENUES	 <u>934,960</u>	 <u>21,895</u>	 <u>956,855</u>
<u>EXPENSES:</u>			
Program services	826,733	-	826,733
Support services	<u>77,855</u>	<u>-</u>	<u>77,855</u>
 TOTAL EXPENSES	 <u>904,588</u>	 <u>-</u>	 <u>904,588</u>
 CHANGE IN NET ASSETS	 30,372	 21,895	 52,267
 <u>NET ASSETS</u> - Beginning of year	 <u>239,928</u>	 <u>-</u>	 <u>239,928</u>
 <u>NET ASSETS</u> - End of year	 \$ <u>270,300</u>	 \$ <u>21,895</u>	 \$ <u>292,195</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007

	<u>Program Services</u> Mental Health Center Programs	<u>Support Services</u> Management and General	<u>Total</u>
<u>EXPENSES:</u>			
Salaries	\$ 457,511	\$ 49,030	\$ 506,541
Payroll taxes	35,490	4,386	39,876
Group health insurance and employee benefits	50,379	6,227	56,606
Pension	<u>14,170</u>	<u>1,751</u>	<u>15,921</u>
Total salaries and related expenses	557,550	61,394	618,944
Professional fees	165,554	-	165,554
Accounting/Audit	-	8,716	8,716
Promise Center	20,205	-	20,205
Advertising	825	825	1,650
Office supplies	11,993	1,332	13,325
Telephone	6,590	732	7,322
Travel	822	91	913
Repairs and maintenance	1,436	159	1,595
Dues	1,630	181	1,811
Staff development	3,938	438	4,376
Insurance	19,963	-	19,963
Cleaning	2,935	326	3,261
Rent	23,119	2,569	25,688
Miscellaneous	1,699	189	1,888
Service agreement	338	-	338
Interest	<u>994</u>	<u>110</u>	<u>1,104</u>
Total expenses before depreciation	819,591	77,062	896,653
Depreciation	<u>7,142</u>	<u>793</u>	<u>7,935</u>
TOTAL EXPENSES	\$ <u>826,733</u>	\$ <u>77,855</u>	\$ <u>904,588</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 52,267
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,935
Decrease in allowance for doubtful accounts	(9,427)
Decrease in receivables	30,356
Increase in unconditional promises to give	(21,895)
Decrease in prepaid expenses	5,277
Increase in accounts payable	2,617
Decrease in accrued liabilities	<u>(6,203)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>60,927</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on capital lease obligation	(1,981)
Purchase of fixed assets	<u>(12,246)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(14,227)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of certificates of deposit	<u>(51,279)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,579)

<u>CASH AND CASH EQUIVALENTS</u> - Beginning of year	<u>193,713</u>
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<u>CASH AND CASH EQUIVALENTS</u> - End of year	\$ <u>189,134</u>
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ 1,104
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SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:

Acquired fixed asset through capital lease	\$ 6,735
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SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Center is a nonprofit organization established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Southeastern Iowa.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Center is classified as other than a private foundation.

The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit organizations.

B. Financial Statement Presentation

The Center has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Center is required to present a statement of cash flows. At June 30, 2007, the Center had no permanently restricted net assets.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

D. Cash and Cash Equivalents

The Center considers savings accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

E. Receivables

The Center grants credit to clients, most of whom are located in the Southeast Iowa area. Also, the Center has grant and contract receivables from the federal, state, and county governments. The risk of loss on these receivables is the balance owed at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Center has provided an allowance for the year ended June 30, 2007, based on historical collections and management's estimate of the collectibility of accounts receivable.

F. Contributions

The Center accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Contributions (Continued)

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Center reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long the long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

G. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Purchases of fixed assets in excess of \$500 that provide future benefits are capitalized and depreciation is computed on the straight-line method over the estimated useful lives of 3-10 years. No interest costs were capitalized since there were no qualifying assets.

H. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of accumulated compensated absences are recorded as liabilities and have been computed based on current rates of pay in effect at June 30, 2007.

I. Employee Benefits

The Center has adopted a defined contribution pension plan covering substantially all employees who have completed one year of service and are at least 21 years of age. The Center contributes 4% of eligible employees' salaries into the pension plan. Employees become fully vested after six years of service. Years of service for purposes of defining plan years are those in which the employee completes at least 1000 hours of service. Pension expense for the year ended June 30, 2007, totaled \$15,921.

J. Advertising

The Center expenses advertising production costs as they are incurred and advertising communication costs the first time advertising takes place.

K. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 2: CAPITAL LEASE OBLIGATIONS

The Center leases a copier with terms through October 30, 2011. The obligations under the capital lease have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at an interest rate of 11.92%. The capitalized cost of \$10,248 is included in furniture, fixtures and equipment in the accompanying financial statements. Amortization expense on the lease totaled \$898 for the year ended June 30, 2007, and is included with depreciation expense.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 2: CAPITAL LEASE OBLIGATIONS (Continued)

The future minimum lease payments required under capital leases at June 30, 2007, are as follows:

<u>Year Ended June 30,</u>	
2008	\$ 3,179
2009	3,179
2010	3,179
2011	3,179
2012	<u>1,058</u>
	13,774
Less amounts representing interest	<u>3,060</u>
Present value of future minimum lease payments	10,714
Less current portion	<u>2,006</u>
Long-term portion	\$ <u>8,708</u>

NOTE 3: MAJOR REVENUE SOURCE

The Center receives an annual grant from Wapello County and also provides treatment to residents of this County. Revenue from the County totaled \$385,845 for the year ended June 30, 2007.

NOTE 4: LEASE AGREEMENT

The Center leases office space under a month to month operating lease at a monthly rental amount of \$2,141. Rent expense on this lease for the year ended June 30, 2007, totaled \$25,688. The Center leases office space for the Promise Center under a month to month operating lease at a monthly rental amount of \$700. Included in Promise Center expenses is rent expense of \$8,400 for the year ended June 30, 2007.

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2007:

United Way sponsored programs	\$ <u>21,895</u>
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Temporarily restricted net assets consist of contributions received whose use has been limited by donor imposed purpose restrictions. The following is a summary of net assets released from restrictions by the satisfaction of the donor restrictions for the year ended June 30, 2007:

United Way sponsored programs	\$ <u>21,177</u>
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NOTE 6: RISK MANAGEMENT

Southern Iowa Mental Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. With the exception of a lawsuit accrued at June 30, 2004 and settled during the year ended June 30, 2005, settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 7: INSURED DEPOSITS

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center had deposits in excess of federally insured limits of \$146,296 as of June 30, 2007.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Southern Iowa Mental Health Center

We have audited the financial statements of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Iowa Mental Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southern Iowa Mental Health Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Southern Iowa Mental Health Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Southern Iowa Mental Health Center's financial statements that is more than inconsequential will not be prevented or detected by Southern Iowa Mental Health Center's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Southern Iowa Mental Health Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency (A) is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Southern Iowa Mental Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the Center's responses, we did not audit Southern Iowa Mental Health Center's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of Southern Iowa Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Iowa Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO P.C.

Ottumwa, Iowa
October 12, 2007

SOUTHERN IOWA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Findings Related to the Financial Statements:

Significant Deficiencies:

- (A) Segregation of Duties - Due to the small size of your organization, one employee performs many bookkeeping duties. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should be aware of the lack of segregation of duties and periodically review its internal policies.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

No matters were reported.